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Access for Infants and Mothers (AIM) Program – Audit of Molina Healthcare of California for the 2005/2006 and 2006/2007 Contract Periods

Final and Confidential

Prepared for the

Managed Risk Medical Insurance Board

MERCER

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Executive Summary – Findings

The Managed Risk Medical Insurance Board (MRMIB) requested that Mercer Government Human Services Consulting (Mercer), a part of Mercer Health & Benefits LLC, conduct an audit of Molina Healthcare of California (Molina), a current AIM Health Plan. The on-site audit was conducted at Molina's Long Beach, California offices January 21, 2009 through January 22, 2009. The test work covered the 2005/2006 and 2006/2007 contract periods. Key findings from this audit are as follows:

- Nine of the 184 sample mothers had no evidence of services. Through extrapolation, the corresponding total estimate of inaccurate payments in the universe is $504,044.95. This amount should be collected from Molina.
- In 2008, MRMIB performed a reconciliation of Molina's AIM payments for the time period from June 2005 through October 2006. The net effect of that reconciliation was a settlement of $227,823, owed from Molina to MRMIB. All of the issues identified in that reconciliation have already been accounted for and payment has been adjusted accordingly by MRMIB. Therefore, no further adjustments will be made for those issues as a result of this AIM audit.
- Molina over reported revenue on their most recent AIM Rate Development Template (RDT). This was as a result of including June 2005 revenue in the RDT, which is one month prior to the beginning time period of the requested RDT base period data. There is no financial impact to MRMIB as a result of this inaccurate reporting.
- Molina's administrative expenditures of 12 to 13 percent are higher than would normally be expected for a program such as AIM, which has higher average revenue and expenses per enrollee. However, Molina has a relatively small membership for the AIM program (less than a thousand members at any given point in time), which can lead to higher administrative expenses on a percentage basis.
- Molina did not properly screen out newborn costs from their AIM RDT base data, which would be the responsibility of the HFP program. The impact of this issue was not quantifiable during the audit, but is not likely significant.

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Introduction

MRMIB requested that Mercer conduct a limited scope audit of Molina, a current AIM Health Plan for the 2005/2006 contract period.

On November 19, 2008, Molina was advised of the upcoming audit by MRMIB. On November 24, 2008, Mercer sent a letter to Molina outlining the scope of the audit and the preliminary data request. Mercer representatives were on site at Molina's Long Beach, California offices from January 21, 2009 through January 22, 2009. Molina representatives were well prepared and responsive during the audit. Ilona Bassin, Compliance Specialist, facilitated the audit on behalf of Molina.

The remainder of this document summarizes the audit objectives, approach and findings.

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Audit Objectives

The specific objectives were as follows:

- Through sample test work on 2005/2006 and 2006/2007 AIM mothers, confirm that AIM mothers received services related to their enrollment period
- Confirm that Molina has appropriately accounted for transfers in/out and retroactive disenrollments, in the Monthly Financial Reports submitted to MRMIB for the 2005/2006 and 2006/2007contract periods
- Determine Molina's loss ratio and net profit (loss) for the 2004/2005 through 2006/2007 contract periods, and calculate any overpayments and underpayments arising from the audit for the 2005/2006 and 2006/2007 contract periods
- Determine the source of information Molina uses to complete their RDT
- Determine how newborns of AIM mothers are accounted for in financial reporting and in the RDT
- Determine the basis on which Molina reimburses their providers
- Verify the database Molina uses to maintain the listing of mothers enrolled, per Maximus

Mercer developed audit procedures to support the objectives of the audit. Where audit procedures involved sampling, Mercer employed statistically sound sampling techniques. Through negotiation with Molina and MRMIB, it was agreed that a sample size of 184 would be generated for the test work. The sampling unit is defined as a pregnant mother, newly enrolled with Molina during July 1, 2005 – June 30, 2007.

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Audit Approach and Findings for Each Objective

Mercer's approach and findings for each audit objective follow.

AIM Mothers Receipt of Service Test Work

Approach:

Mercer employed a three phase approach, based on statistically sound sampling techniques. The first phase creates a definition of the universe. The universe was identified to be mothers enrolled with Molina and a corresponding payment made during contract year 2005/2006 or 2006/2007. These mothers were summarized in a file sent to Mercer from Deborah Simmons of MRMIB.

The second phase entailed generating a statistically valid sample of mothers from the universe. Each woman in the sample represents one sampling unit. A sample size of 184 was chosen based upon negotiation with Molina and MRMIB.

The third phase consisted of a claims review and comparison to the Monthly Financial Reports prepared by Molina and submitted to MRMIB. Mercer requested at least one claim for each of the 184 members, along with a remittance advice for each claim documenting that a payment was made for that claim. If no claim was available, this was considered an exception. If a member was terminated back to the date of enrollment, this was also considered an exception, even if services were provided, since the member was not eligible. In the sample test work, no case of retroactive termination was noted where services had been provided by Molina. Capitation was also not considered evidence of a service though we noted no capitated claims. For each exception, Mercer verified that the mother was included in a Monthly Financial Report, validating that MRMIB paid for that mother. If the mother was terminated, transferred in or out, and appropriately recognized on the Monthly Financial Report, this was not considered an error, even if no services were provided.

For each claim, the mother's name was first verified with our sample set. If the name was not an exact match, the patient's AIM identification number and birth date were used for verification. The patient name, date of service and claim amount was then verified with the remittance advice to support that the remit was appropriate documentation of payment for the given claim. Mercer also traced several claims to a bank statement, noting that the payment cleared.

Findings:

Of the 184 mothers in our sample, Mercer noted the following:

- Nine of the 184 sample mothers had no evidence of services. Mercer considers these exceptions. Mercer did verify that Molina received payment for each of these exceptions.
- Four of these mothers had been paid to Molina as transfers in/out. Therefore, only the amount of final net payment received for these members counts toward the dollar error value.

Sample error extrapolation

The audit revealed an error rate of 3.682 percent in the sample. Molina was paid $61,128.92 for the members, for whom no services were provided. The total amount paid to Molina for the entire sample group (184 members) was $1,660,409.80. So, the error rate is $61,128.92 divided by $1,660,409.80. Molina was paid $13,691,083.86 for the entire universe of newly enrolled members for the period from July 1, 2005 through June 30, 2007. Using the sample error rate of 3.682 percent, the corresponding estimate of inaccurate payments in the universe is $504,044.95. This amount should be collected from Molina.

Monthly Financial Reports for 2005/2006

Approach:

Mercer requested copies of all financial reports submitted to MRMIB for the 2005/2006 and 2006/2007 contract periods. New mothers, transfers in/out and retro cancellations were compared to a report received directly from MRMIB. Mercer also performed a recalculation of the amounts reported.

Findings:

The Monthly Financial Reports captured enrolled members, and some transfers in. However, the reports did not contain any transfers out. We noted inconsistencies in accurately capturing some of this information. Some of the issues identified are discussed below.

- In 2008, MRMIB performed a reconciliation of Molina's AIM payments for the time period from June 2005 through October 2006. The net effect of that reconciliation was a settlement of $227,823 owed from Molina to MRMIB. The cause of the errors included everything from members enrolled with Molina that they were not paid for, to over claiming for transfers in and no repayments for members transferring out of Molina.

- There were no members claimed as "Transfers In" to Molina until the December 2006 Monthly Financial Report. There were actually 41 members from July 1, 2005 through November 30, 2006, that should have been claimed as "Transfers In" and paid at only 75 percent. However all of these members were originally claimed as brand new members at the full rate.
- For the time period from July 1, 2005 through June 30, 2007, Molina did not report any members as "Transfers Out". There were actually 7 members during that time period who should have been included on the Monthly Financial Reports as "Transfers Out" and repaid at 75 percent.

All of the issues identified in the bullets above have already been accounted for and payment adjusted accordingly by MRMIB. Therefore, no further adjustments will be made for these issues as a result of this AIM audit. It is recommended that Molina re-examine their process for completing the Monthly Financial Reports.

Loss Ratio and Net Profit (Loss)

Approach:

Mercer requested that Molina prepare income statements for the 2004/2005 – 2006/2007 contract periods, using the California Department of Managed Health Care Annual Reporting forms. We reviewed these income statements with Susan Nakaoki, Molina's Controller and Greg Hamblin, Molina's Chief Financial Officer.

Findings:

Reported financial information is as follows:

	2004/2005	2005/2006	2006/2007
Total Revenues	$601,996	$6,503,210	$8,243,538
Medical Expenses	$647,975	$7,392,080	$8,265,776
Administration	$12,184	$902,495	$1,015,023
Net Income (Loss)	($58,163)	($1,791,365)	($1,037,261)
Profit (Loss) Ratio	-9.66%	-27.55%	-12.58%
Administration/Capitation Revenue	2.02%	13.88%	12.31%
Medical Cost Ratio	107.64%	113.67%	100.27%

Molina recognizes AIM revenue on a deferred basis, where some revenue is recognized each month during the expected enrollment period. The percent of revenue recognized each month varies based on a pre-set formula that is meant to approximate the expected liability/expense incurred pattern for the members. This is a reasonable approach to revenue recognition for the AIM program.

We noted some reasonably large differences between the revenues and expenditures reported on the income statements versus those reported as base data in the 2008/2009 RDT submission. Specifically, the total revenue reported on the income statements for 2005/2006 and 2006/2007 ($6,503,210 + $8,243,538) was $14,746,748. The amount reported on Molina's RDT for this same time period was $15,602,841. According to Molina, the revenue in the financial statements is correct. The revenue in the RDT was overstated. This was a result of Molina including June 2005 revenue in the RDT, which is one month prior to the beginning time period of the requested RDT base period data.

In addition, the total medical expenditures per the income statements for 2005/2006 and 2006/2007 ($7,392,080 + $8,265,776) were $15,657,856. However, the amount reported on Molina's RDT for this same time period for medical expenses was $13,424,560. The expenditures reported in the income statements included expenditures for mothers who were enrolled before July 1, 2005. The income statement expenditures also appropriately included AIM children's expenditures. Per the RDT instructions, these expenditures were not to be included. This is a reasonable explanation for the differential reported in expenditures.

Molina utilizes an allocation methodology to recognize administrative expenditures for the AIM program. They use membership as the basis for their allocation, which is also used for their other lines of business. They are consistently reporting approximately 12 to 13 percent administrative costs for the AIM program. According to Greg Hamblin, Molina's Chief Financial Officer, this level of administrative expenditure is relatively consistent with their other lines of business (i.e., Medicare, Medi-Cal and Healthy Families). Administrative expenditures of 12 to 13 percent are higher than would normally be expected for a program such as AIM, which has higher average revenue and expenses per enrollee. However, Molina has a relatively small membership for the AIM program (less than a thousand members at any given point in time), which can lead to higher administration on a percentage basis.

Information Molina Uses to Complete the Rate Development Template

Approach:

Mercer reviewed Molina's contract year 2008/2009 RDT (base data from 2005/2006 through 2006/2007). In addition, we interviewed Greg Hamblin, Chief Financial Officer, who was able to walk us through both the support provided, as well as the overall process utilized by Molina to complete RDTs.

Findings:

Schedule Two of the RDT (Revenue, Expense and Utilization Statement) was prepared by using Molina's historical AIM claims and related data. The base period used was from

July 1, 2005 through June 30, 2007, with claims run-out through March 31, 2008. Molina did not apply any completion factor to their data, as they felt it was adequately complete.

We also noted the following:

- Most newborn days/costs were included in the mother's inpatient expense categories, since they are billed with the mother's claim.
- The health plan reported a reasonable distribution of expenditures.
- The total historical costs reported in the RDT were generally very consistent with the total population claims history report that the plan made available to us.
- As discussed later in this report, Molina did not properly screen out newborn costs from their AIM RDT base data, which would be the responsibility of the HFP program.

Schedule Three of the RDT (Trend Assumptions) includes annual trends to be applied to the historical data. Cost trends were based upon analysis of historical claims data for the health plan, as well as information available on the most recent contract negotiations. We noted the following regarding annualized trend rates:

- Annualized unit cost trend rates range from 4.0 percent to 8.5 percent.
- Annualized utilization trend rates were all set at 0.0 percent.

The trend figures submitted in the RDT for hospital services at 8.5 percent were a little higher than expected, but otherwise reported trends appear to be reasonable.

Schedule Four (Projected Health Care Costs and Proposed Rates) is largely calculated cells, and/or a summary of claims distribution that was developed from historical data. Schedule Four also includes Administration and Profit/Risk/Contingency load factors. We noted the following regarding Schedule Four:

- The Administrative load percentage calculated in the RDT was 11.4 percent.
- The Profit/Risk/Contingency included in the RDT was 3.6 percent.

The Profit/Risk/Contingency load included in the RDT is reasonable. The Administration load is slightly higher than what would normally be expected for this type of a program; however, this is largely driven by the small size of Molina's AIM program.

Accounting for Expenditures Related to Newborns of AIM Mothers

Approach:

Per the Molina contract the "State shall pay for infants born to subscribers who enroll in the program on or after July 1, 2004, through the Contractor's contract with the State for Healthy Families Program" (Exhibit B, I. B. 4). During our sample test work, Mercer looked for evidence of newborn claims and how they were handled. In addition, we discussed Molina' process for handling newborn claims with Susan Nakaoki, Molina's Controller and Greg Hamblin, Molina's Chief Financial Officer.

Findings:

Molina staff appeared to be aware of the change of how newborns are accounted for, effective July 1, 2004. For most deliveries the newborn claims are combined with the Mother's costs on the claims. For deliveries at non-contracted hospitals, the newborn costs are generally received by the provider on separate claims. In cases where the newborn stays in the hospital longer than the mother, they are also billed separately. Although the health plan staff was aware of the proper accounting for newborns between AIM and HFP, their actuaries who prepared the RDT did not screen for newborn claims, which would be the responsibility of the HFP program. Therefore, there may have been some HFP newborn costs reported in the AIM RDT. Although this was not quantifiable during the audit, any impact would likely have been minor. We know this due to the fact that the child costs included in the AIM RDT were very small to start with. Further, we know that some of those costs classified as "child" were specifically identified because the deliveries occurred in non-contracted facilities, but would have represented appropriate AIM costs. Therefore, any remainder would be small. We recommend that Molina appropriately screen out HFP claims/expenditures from future AIM RDT submissions.

Basis on Which Molina Reimburses Their Providers

Approach:

Mercer requested Molina to provide narrative write-ups documenting their approach to developing, paying and reconciling payments, including capitation payments to providers. While on site, Mercer reviewed these narratives with Lisa Ferrari, Molina's Director of Provider Services (San Diego Region).

Findings:

Molina contracts with 49 OB/GYN groups and 2 Gynecological groups, representing 104 individual provider specialists, in San Diego County. Molina's reimbursement arrangements with their provider network in San Diego, primarily benchmark rates off the Medicare or Medi-Cal fee schedules. Their rate of reimbursement ranges from 130 percent of Medi-Cal to 110 percent of Medicare. These rates approximate typical commercial contracting rate levels. Molina does not use any capitation to pay providers for the AIM program. Mercer noted nothing unreasonable about how Molina approaches provider reimbursement.

Verify Database Molina Uses to Maintain AIM Enrollment

Approach:

Molina provided a written summary of their approach for accepting, processing and reconciling enrollment information, and how members are assigned to providers. Mercer reviewed the Monthly Financial Reports (invoices) submitted by Molina to MRMIB for billing months July 1, 2005 through June 30, 2007, to verify the process/summary described by Molina. In addition, Mercer interviewed Karyn Appel, Molina's Manager of Member Services, about the processes utilized.

Findings:

AIM enrollment is downloaded daily from Maximus via FTP file. Molina's Information Technology Department then converts the daily files into Excel spreadsheets. These spreadsheet files are sent to Molina's Eligibility Representative (ER) or Eligibility Unit designee. The ER manually processes each AIM daily file and loads the membership into Molina's QNXT System. The weekly AIM file is downloaded in a similar manner and is utilized by Molina to verify the information posted via the daily files.

Although Molina's process for accepting and tracking AIM membership appears to be sound, somehow not all of the membership information is being properly reported on the Monthly Financial Reports. Molina should examine their processes to identify what is causing this discrepancy and correct it immediately. During the exit call on May 22, 2009, Molina indicated that they have already taken steps to improve these processes.

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